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- **Scanning Basics Part 1: Choosing the Types of Stocks to Daytrade**

● **Main Points:**

AAPL
ADBE
ALTR
AMAT
AMCC
AMGN
AMZN
BEAS
BGEN
BRCD
BRCM
CHKP
CIEN
CMVT
CPST
CREE
CSCO
CTXS
DELL
DIGL

- This lesson will help you learn how to select a stocks are best for Nasdaq daytrading
- Start by quickly [reviewing the first intro module](#) page on the subject, eg avoid the most actives and those w/less than 5% intraday volatility
- With all the possible stocks out there to trade, how do you choose the best ones to focus your trading efforts on? This is what we'll answer in all of Module 7, starting with this lesson.
- Key criteria for choosing the right stocks to trade are illustrated with the examples below.
- A few helpful things to remember are to be patient, be skeptical of charts, be sure to trade during the best trading time of day, eg 9:30 til 11am, and be selective in choppy market.
- Stock selection for daytrading is based largely on trading ranges and chart patterns. The volume and volatility that are essential to creating profitable trading opportunities are important to learn how to read.
- Scanning through a list of stocks, like those on the left, is done each morning premarket starting at 8:30am EST, we look for premkt buying/selling/gaps and volatility as an early indication of the market trend. We also look at the COMPQ on the two day chart.
- The stocks I'm training traders to use, and trading myself, for the current market, June 2001, are in the column on the left. Many of them, eg the tier 1 sector leaders like INTC MSFT, or ones that some of the rooms trade heavily, like JNPR/CIEN, I may use only as indicators, ones I keep an eye on, while trading activity is focused more on ones like VRSN CHKP ADBE AMAT SEBL BEAS.

EBAY
EMLX
ERTS
EXTR
FLEX
GMST
HGSI
IDPH
IDTI
INTC
INTU
ITWO
JDSU
JNPR
KLAC
LLTC

KEY IDEA: Scan for "CLEAN CHART LINES" on charts with WIDE 2-4 point intraday trading ranges and volatility, stocks priced \$30-\$60 or so.

STEP ONE:

Learn what stocks are in what sectors, and which ones are the "most actives" (not for trading, more to use as an indicator) vs the "trading stocks" (eg INTC the most active, we trade KLAC AMAT LLTC XLNX PMCS etc).

Figure out what sectors and stocks to begin looking at using a 2day 2minute candlestick chart. You do not care about the 10day or longer timeframe. Start scanning based on stocks in major [sectors](#) ([click this link to see what stocks are in what sector](#)). Also see [this link](#) midway down the page for stocks sorted in sectors.

STEP TWO:

Now that you are familiar with what stocks belong in what sectors, begin looking at them on two day charts each morning, (should take 1-2 minutes per chart for 20-30 charts you review each morning premarket).

Your daily morning premarket ritual should include the following:

- **What's the average intraday trading range of the stock?** Let's focus on those with a 2 to 4 point range as a starting place.
- **What's the price of the stock?** Look to trade those priced \$30-\$50 per share. The under-\$20 stocks, and to a lesser degree, the \$20-\$30 ones, have under a point (or 1 1/2 point) total intraday range, making it difficult to get +1/2 point wins or better consistently.
- **What's the chart patterns** of the stocks telling us? Look for ones that have relatively clean trading ranges and can provide decent trading liquidity.

LRCX
MEDI
MERQ
MLNM
MSFT
MUSE
NEWP
NTAP
NVLS
NXTL
ONIS
OPWW
PMCS

Compare the "good stocks" and "bad stocks" examples below - what differences do you see?

GOOD STOCKS FOR DAYTRADING EXAMPLES:

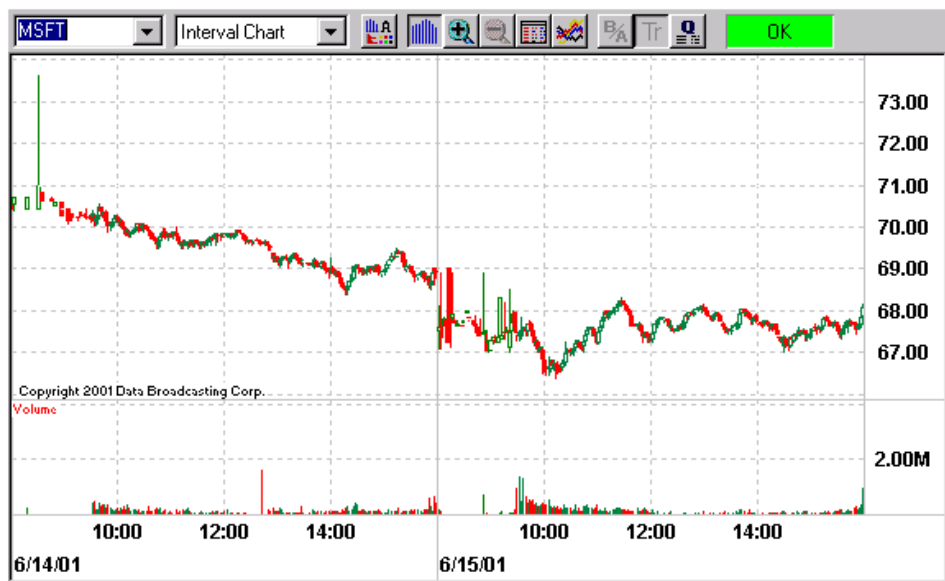




Answers: for the good stocks, above, we have good trading ranges and volume. Both are needed for successful trading. There is **strength in these charts**, in the directions of their moves, both down on 6/14 and back up off the bounce on 6/15.

BAD STOCKS FOR DAYTRADING EXAMPLES (same trading days, 6/15/01 - 6/16/01):





Answers: for the three stocks above, which I would generally not want to trade on a regular basis, each chart has a problem. CORV is too cheap, it's a sub-\$20 stock that has very little trading potential. Also note that you can't short under-\$5 stocks. The best a trader could've done is buy the exact bottom at 3.9 and sold for 4.1 ... this is bad.

MSFT doesn't have enough trading range (though a 2d breakdown short is a good technical entry, the trade potential is not high). And ELON doesn't have either sufficient volume or volatility to be worthwhile for trading.

I want you to learn how to differentiate between the various charts, and learn how to ignore/filter out all the bad charts, which are the majority, and instead learn to focus on specific trading opportunities when they exist.

which are the majority, and instead learn to focus on specific trading opportunities when they exist.

We will cover many specific scanning strategies and criteria throughout Module 7, since it's important to help you all learn what to look for in whether or not to enter a trade.

- **Scanning Basics Part 2: Identifying Signals vs "Noise" - What Should Get Your Attention?**

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● Main Points:

- This lesson will help you learn some of the initial criteria to use in helping tell the difference between "good trade opportunity" and "no clear signal" in the charts.
- One key to remember is that you do not want to get wiggled out, so avoid charts that have a lot of chop and churn in them. You cannot expect to "thread the eye of the needle" with some stochastic pop scalping style, this is unrealistic.
- You want to use close stops on stocks in clean, large 3/4 point type trends.
- In scanning for stocks to trade, give preference to those with "clean lines" - they are easier to trade.
- It is worth noting that it will take you some time to learn how to distinguish between the two types of charts.
- The examples here and in subsequent lessons can help give you a clear idea of what you should be looking for.
- It's good to avoid the churn in stocks that chop and oscillate too closely, as these will produce more stop losses.
- It's also important to know how far, on average, your stock will run before getting a retracement or consolidation patterns.

CHART PATTERN EXAMPLES:

CLEAN TRADE LINE CHARTS

Note in the charts below that the trading follows a closer line, eg there's less "chop" and wiggles on the patterns. These are better for trading. You do not want to trade stocks that oscillate and chop around a lot, as you will get stopped out.

These three below, EBAY BGEN ERTS illustrate "clean" trade lines:





CHART PATTERN EXAMPLES:

CHOPPY/NOISY TRADE LINE CHARTS

Note in the charts below that the trading is choppy and indeterminate. The moves in either direction are met by reversals more frequently, and trading is choppy. Again, these are all from the same trading day.

These three below, CIEN DELL QCOM illustrate "choppy/noisy" trade lines, and show you the types of charts to avoid trading:





Not surprisingly, these are also very heavily traded "most active" types of stocks. A good example of how something popular with the public crowd can be bad for daytrading.

Your Own Observations:

Okay, so go pull up a handful of charts and see if you can start to differentiate based on the "trade potential" in what you are looking at.

Take note of those with cleaner, easier-to-follow trade lines, on good volume, compare to those that just chop and churn.

As a trader, you should develop the ability to differentiate between these various chart patterns.

- **Scans for Percent Gainers - When Do We Look for New Longs??**

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● **Main Points:**

- This lesson is designed to help you learn what to look for both premarket and as each trading day begins for scanning for potential long entries.
- One key strategy to use premarket is to begin by identifying stocks that are "outliers", eg those that closed the previous day the highest percent green/red, especially when this is over 5% in magnitude.
- In the current trading day, we can play both continuations/reversals of these, as well as learn how to do real-time scans for high-potential trade setups.
- In scanning for percent gainers, we need to understand both the average intraday trading range of the stock, eg when it's extended or about to continue.
- Strong clean line charts that are reversing or continuing on high volume are excellent to learn how to scan for.
- This strategy is particularly well-suited to mixed, choppy days. You want to be able to identify those few charts that have the best potential for follow through using these techniques.
- Using a 2-day high breakout pattern in combination with correct premarket and early market scanning can produce excellent results. Let's look at a few examples:

THE METHODOLOGY FOR SCANNING FOR PERCENT GAIN CONTINUATION PATTERNS:

1) PREMARKET WORK: *RELATIVE SECTOR STRENGTH PREVIOUS DAY SCAN*

It begins, as always, with your premarket work that you start each trading day around 8:30am EST.

- Set up one dedicated quote box that just tracks sector percent changes (calculated from the open, not from the previous day's close) .

SCANNING ELEMENT ONE: Relative Sector Strength from Previous Trading Day: You should look for which sectors closed off the most green/red from the open in the previous trading day... eg a typical analysis might yield :

Strong prev day (NBI SOX) Weak prev day (GIN GSO) If you see that in the previous session, say NBI closed +1.8%, SOX +1.2%, GIN .0.8% and GSO -1.1%..

Ok, so now you have a 'bias' to know which sectors had the most money flow in/out in the previous trading session. This is a helpful data point for the current trading day.

1) DING DING! OPENING BELL, What To Look For:

Okay, now as the market opens, **you should be keenly focused on the sector percent change from the open as the market goes from 9:30 am til 9:38 am.** You're looking to see **a) whether they open mostly green/mostly red, and what trend they have, as a group and b) which 2 sectors are the strongest/weakest?** To get this you need to click on the Pct column frequently, to sort the column by which sector percentages are moving, eg once every couple of minutes.

You also have 1-minute line charts on your monitors grouped by sector, along with an index chart (see <http://www.daytradinguniversity.com/!16mon.gif> left two screens for examples, using SOX/GSO) Also note the sector percent chart in the 2nd monitor as well.

Let's walk through an example step by step, a good example is in the live room on a GENZ series of winning alerts we posted (4 in a row wins) on Feb 12, 2002. Let's say our sectors opened like this, eg at 9:45 or so the sector box may appear like this:

Symbol	Pct▼
\$NBI	+0.8%
\$COMP	+0.3%
\$GIN	-0.1%
\$GSO	-0.5%
\$SOX	-0.7%
\$GHA	-1.3%
\$GIP	-1.7%

Your question as a trader is: a) **is the market overall bullish or bearish on the opening 10-15 minutes?** (bearish, also look at the tring value to see if it's under 1 or over 1, eg <.7 bullish, >1.5 bearish)

b) **which 1-2 sectors are the most green** (Biotechs, NBI) and most red (Networkers and hardware, GIP/GHA) and **most red by 9:40am?**

Note that we usually get quick market reversals around 9:40/9:50/10am daily.

2) OK You've Identified Overall Market Bias (Long/Short) by seeing if the majority of sectors are green/red percent change from the open, and you have Identified which sectors are most green/red of the 6 or so you follow.

This is your Initial Sector Relative Strength profile, your data to work with, that you moderate all trade entries from.

You are now prepared, say it's 9:40am, and you are:

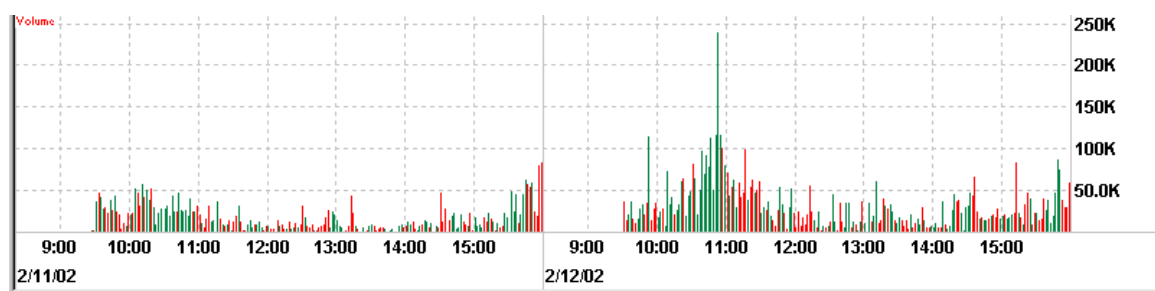
a) more skeptical of longs than shorts on an open like this (meaning you're likely to mainly try 2day high breakouts, intrarange long entries rare, in NBI sector) and

b) you will look for longs mainly in Biotech sector on this open, and short the other sectors.

Let's look at an example of live calls I made in our live training room Feb 12th 2002, using a NBI sector breakout in GENZ:

This is the 2-day chart in GENZ: Initial longs at 43.6, 44.7, 46.7 for three long wins, and a short call at 47.35- for the reversal.





Now how do I scan the market for such a nice string of wins, you may ask?

Well, we are initially biased short overall in the market, with possible longs in biotech, as they are the strong/green sector of the basket. I knew this going into the open, during our first 20 minutes or so, as biotech sector took the early lead.

I saw both volume and pace in time & sales strong in GENZ, which helped confirm our multiple entries in this powerful stock.

Use strong stocks in the strongest relative sector on 2day high breakouts as your key, #1 most-often used long entry Nasdaq daytrading strategy. You do Not have to wait forever for these two day highs, and if you use the time & sales and volume patterns to help you filter false breakouts/double tops, eg by making it punch through at least .2 to .4 over the high of the previous trading day, on volume, you will have learned the best trading setup I can share with you. These are Much better than intrarange or bottom fish type long entries. Test it yourself. I do, daily.

Key learning point: Sector percentages tend to stay relatively constant throughout the trading day, eg the "most green" and "most red" sectors at 9:35 / 9:40 will likely be the same strongest sectors throughout the day's session.

What this means is, (here's another pro tip), the "most green/most red" sector at 9:40 can lead you to a nice profitable win on an entry at 10:15 or whatever, since you know the relative sector strength pattern for the day.

Given the choppiness of the stock charts, it's very important to know this one data point, that **the rank order of sector percent changes for the outliers** usually stays relatively constant throughout the trading day. It's very unlikely for sectors that are the outliers to change their ranking/ordering throughout the trading day. Eg **if semis and software are strongest sectors at 9:50, they are very unlikely to become the weakest sectors compared to others later in the session**, they tend to flock together in the same rough ranking.

Use this powerful knowledge to help you assess specific chart patterns as they become available for entries, moderate/balance your entries and other data points off of the sector percent relative strength scan.

Here's the actual sector percent change chart from the open on Feb 12th, note that the sectors closed offat 4pm in the same rough order as they opened, with biotech's the strongest.

Symbol	Pct▼
\$NBI	+4.8%
\$COMP	+0.3%
\$GIN	-0.0%
\$GSO	-0.5%
\$SOX	-0.7%
\$GHA	-1.9%
\$GIP	-3.2%

Ok traders, test this out for yourself - the main point for long sector-based scanning strategies is to continually sort the sector percent changes from the open and then selectively enter breakouts from among stocks that belong to the "lead sector"

This is a big help if you face the common problem of "ok I see 6 chart patterns that look okay for longs, which one do I go with?" In this example, say you are watching GENZ (NBI) and VRSN CHKP (GSO) and AMAT XLNX (SOX), given chart patterns that are all roughly the same, you would want to go long GENZ since it's in the strongest sector, thus has the 'best odds of following through'. Make sense?

Your Own Observations:

Okay, so practice with this powerful technique, it's one of my most important signals in my daytrading entries and exits, as I explain daily in the live training room. Hope it helps - enjoy!

REST WILL FOLLOW WHEN THE AUTHOR FINISHES AND PUTS IT ON HIS WEBSITE!